



# First Friday Fraud Facts+

July 1, 2016

*The Office of the Idaho State Controller distributes this newsletter as a public service and as a cost-effective method of increasing awareness about ways to detect and prevent fraud, waste, and abuse in government.*

## Fixed Asset Fraud

A fixed asset is an asset that is not consumed or sold during the normal course of business, such as land, buildings, equipment, machinery, vehicles, leasehold improvements, and other such items. Fixed assets enable their owner to carry on its operations. In Accounting, fixed does not necessarily mean immovable; any asset expected to last, or be in use for, more than one year is considered a fixed asset.<sup>1</sup> They are often referred to as capital assets in government accounting. Prior to the Sarbanes-Oxley Act (SOX), a number of auditors viewed fixed assets as having the appropriate internal controls, and, therefore, deemed them a low-risk area. As a result of having received little audit scrutiny, some major financial frauds have been perpetrated through significant misstatements of fixed asset balances in the financial statements of public companies. Although considered low-risk, fixed assets need close attention to ensure the entity's records are accurate and its controls are effective.<sup>2</sup>

---

*Median losses associated with non-cash schemes is generally higher than cash schemes, being \$100,000 as opposed to \$60,000. .*

*- theinnerauditor.com -*

---

## Common Fixed Asset Fraud/Scheme:

- Removal/theft of inventory, supplies, and equipment
- Unauthorized personal use ("borrowing") of fixed assets by employees
- Trade secrets, patents, and copyrights

## Why Fixed Asset Fraud Matters

While not as common as cash schemes, employee misappropriations of other types of corporate assets than cash can sometimes prove even more disastrous than cash theft for any organization that suffers them. The median losses associated with non-cash schemes is generally higher than cash schemes, being \$100,000 as opposed to \$60,000. The other asset category included such assets as inventories of all kinds, i.e., inventory for sale, supplies and equipment and some categories of fixed assets; in short, the term 'inventory and other assets' is generally meant to encompass misapplication schemes involving any assets held by an enterprise other than cash. The theft of non-cash assets is generally classified by the ACFE into three groups: inventory schemes, supplies schemes, and other asset schemes; of these schemes inventory related schemes account for approximately 70% of the losses while misappropriation of company supplies accounts for 20%. The remaining losses are associated

### Inside This Issue:

Common Fixed Asset Fraud/	1
Why Fixed Asset Fraud Mat-	1
Fraud in Action	2
Reducing the Risk of the	2
Upcoming Events	3



with various types of fixed assets, equipment, and corporate related information.<sup>3</sup>

## Fraud in Action:

- A maintenance crew manager at a major airport “borrowed” a hydraulic jack from the construction site. An employee on the crew called the investigator to report the theft. Following up this tip, a scheme was uncovered to defraud the airport of more than \$400,000 in fixed assets, primarily equipment.<sup>4</sup>
- U.S. Marshals service had lost a few thousand encrypted communication devices (mainly radios) ranging in prices between \$2,000 to \$5,000; such devices, in the wrong hands, can allow persons to listen in on policing operations and as a result, potentially compromise the safety of officers and citizens.<sup>5</sup>
- A soldier and his father were accused of trying to sell military-grade equipment to a Mexican drug gang. The soldier, a supply sergeant stationed at Fort Knox, and his father allegedly tried to sell \$153,500 worth of stolen military equipment through an intermediary “affiliated with Mexican drug trafficking organizations”. However, their connection was actually a law-enforcement informant. Financial trouble and need for money was the reason given for the crime.<sup>6</sup>



## Reducing the Risk of the Fixed Asset Fraud:

- For each type of asset inventory, items such as requisitions, receiving reports, shipping documents, and perpetual records should be pre-numbered and controlled
- Separation of duties should be in place for duties involving requisition of inventory, receipt of inventory, disbursement of inventory, and conversion of inventory to scrap
- Physical inventory count/observation should be done by someone knowledgeable of the inventory, but independent of the purchasing or warehousing function
- All company owned merchandise or supplies should be physically guarded and/or locked with access limited to authorized personnel only
- Assets that do not meet the threshold of capitalization should be tracked and counted for. Smaller dollar assets are more likely to be stolen (think tablets), especially if they are not inventoried.

## Citations

<sup>1</sup> Business Dictionary. <http://www.businessdictionary.com/definition/fixed-asset.html>

<sup>2</sup> Increased Scrutiny: Fixed Asset Controls and Reporting. <http://daily.financialexecutives.org/increased-scrutiny-fixed-asset-controls-and-reporting/>

<sup>3</sup> Fixed Assets Fraud. <http://theinnerauditor.com/?tag=fixed-assets-fraud>

<sup>4</sup> Investment and Fixed Asset Frauds. [https://www.mcgovernngreene.com/archives/archive\\_articles/Craig\\_Greene\\_Archives/Focus-Employee\\_Frauds-Invest.html](https://www.mcgovernngreene.com/archives/archive_articles/Craig_Greene_Archives/Focus-Employee_Frauds-Invest.html)

<sup>5</sup> How to Prevent the Theft of Fixed Assets. <http://cpa-scribo.com/how-to-prevent-the-theft-of-fixed-assets/>

<sup>6</sup> FBI: Soldier tried to sell Army equipment to drug gang. <http://www.usatoday.com/story/news/nation/2014/08/15/military-equipment-sting/14112825/>

## Contact Us

**Roni Harlan**

Financial Specialist

P.O. Box 83720

Boise, ID 83720-0011

(208) 332-3415

[rharlan@sco.idaho.gov](mailto:rharlan@sco.idaho.gov)

Visit us on the web at

[www.sco.idaho.gov](http://www.sco.idaho.gov)